

Tax Monetization Strategies for LFG Electrical Generation Facility Developers

ABSTRACT

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So, you've successfully navigated the economic, engineering and regulatory obstacle courses and have brought on-line a landfill gas (LFG) electrical generation facility. Throughout the process, you had heard from fellow developers, your bank, your lawyers and your accountant about something called the "production tax credit" (PTC). Sounds good! Now, however, your accountant and lawyer are saying that you can't use these credits right away, or maybe ever. What will you do? What WILL you do?

Fear not! The financial world is full of investors hungry for tax credits – and willing to pay for them! In this paper and presentation, we will address the various operational, economic and tax aspects of bringing in a "tax credit investor" as a partner in your facility.

LFG and smaller electrical generation facility developers sometimes have limited access to capital. They often also have relatively little (and sometimes no) need or appetite for income tax credits. Tax monetization creates a "win-win" opportunity in these circumstances – developers can effectively divest themselves of tax credits that they cannot use efficiently while accessing capital that might not otherwise be available to them, and tax credit investors are allocated tax credits that they can use currently.

We will analyze the history of the section 45 PTC and different monetization strategies and structures that can be used to create value. Key issues for developers that we will address include: (1) maintaining operational control; (2) unwinding at the end of the tax-credit period; and (3) pricing.

The paper and presentation will be focused primarily on issues and opportunities for developers, but we hope and anticipate that the information and resulting discussion will be valuable to potential tax credit investors and anyone else interested in the LFG industry.